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C O N F I D E N T I A L SECTION 01 OF 02 CHENGDU 000259

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SUBJECT: SW CHINA SOLAR FIRM BUYS MAJORITY OF US COMPANY, HAS  
MULTINATIONAL ASPIRATIONS

CHENGDU 00000259 001.2 OF 002

CLASSIFIED BY: David E. Brown, Consul General, U.S. Consulate  
General Chengdu.

REASON: 1.4 (d)

11. (SBU) Summary: Officials from Tianwei New Energy, a solar power company based in southwest China's Sichuan province, said that the recent acquisition of a controlling share of the U.S. firm Hoku Scientific was a sudden opportunistic move rather than a key part of the company's long-term development strategy. Despite having only a small share of China's rapidly expanding solar-power market, and no unique manufacturing technology to differentiate it from competitors, company officials expressed confidence in Tianwei's growth potential. Tianwei's General Manager said he hoped to build the company -- which is part of a much larger conglomerate -- into the next Ford or Siemens. The company sees long-term market potential for its polysilicon photovoltaics, and dismissed claims that newer solar technology like thin film cells will largely replace older technology. Tianwei benefits significantly from China's policies supporting solar energy, but company officials asserted that other, competing countries also offer similar government backing. End Summary.

Tianwei's U.S. Acquisition and Multi-Million Dollar Development

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12. (SBU) Tianwei General Manager and Chief Engineer, Guo Aihua, told Consul General recently that the late-September acquisition of a 60 percent stake in the Honolulu-based solar firm Hoku Scientific was not originally a part of his company's strategic growth plan. Guo said that Tianwei had formed a partnership with Hoku, which had been an important supplier of polysilicon, but had not planned to take a controlling interest in the company. However, the global economic crisis brought Hoku to the brink of collapse, according to Guo, and Tianwei faced losing procurement pre-payments (that press reports valued at up to \$79 million). Rather than risk a total loss on this buyer-financing, Tianwei purchased an additional 33.4 million shares of Hoku -- worth up to \$227 million according to one press report -- and gained the right to nominate a majority of the members of the board of directors. Guo claims the two companies have similar technology, and that the purchase did not boost Tianwei's technological capacity. Tianwei's cssh injection to Hoku will allow the latter to expand a polysilicon factory in Idaho to 4,000 metric tons of annual capacity.

13. (SBU) Tianwei worked together with China Construction Bank to finance the Hoku deal, according to press reports. Tianwei's U.S. investment comes amidst Tianwei's construction of a 440 million-dollar polysilicon manufacturing and research center in Chengdu, China. Once completed, the facilities will cover about 119 acres in an area that Chengdu's government is promoting as a "solar energy industrial base." During CG's visit, however, construction had yet to begin on parts major portions of the facility.

Aims to be the Next "Ford" or "Siemens", But Unclear How

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14. (SBU) Guo said that, while his company currently has only a 3-4 percent share of the domestic solar cell market, he aspires to grow his company into a large multinational, and sees Ford, Siemens, and ABB as models to emulate. Guo was vague when asked what differentiated his company, on a technology basis, from other solar firms, emphasizing only that Tianwei did its own in-house research and development. (Note and Comment: Guo did not say what share of the international market his company had captured. Tianwei does not appear to have unique manufacturing technology that might give the company a leg up over competitors. It is, however, part of a much larger conglomerate that may give it advantages in terms of financing and thus more of an ability to take a longer-term perspective. End Note and Comment.)

Polyisilicon Competitiveness and Coexistence in Solar Power

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15. (SBU) Polysilicon solar panels will continue to hold a share of the solar power industry for many years to come because of their relatively high efficiency compared to other technology, according to Guo. He said that polysilicon panels had a greater power generation over a given surface area than competing technologies like cadmium-telluride cells. In constrained-space applications, Guo claimed that the polysilicon panels would continue to dominate. As an example, he cited Germany, where 90 percent of solar panels are roof-mounted.

16. (SBU) At the same time, Guo acknowledged that polysilicon cells faced some constraints and challenges in the market. He said that cadmium-telluride cells were cheaper to produce and could be used in a more diverse range of applications than polysilicon. At the same time, he rejected the argument put forth in a "South China Morning Post" article earlier this year that more pollution is created manufacturing polysilicon cells than is saved over the useable lifespan solar panel made from them. He said that this argument ignores the benefits of a "closed-loop" production cycle, where by-products of the production cycle are recycled. He estimated that, by using a closed-loop process, Tianwei's polysilicon cells will produce six times more energy over their lifespan than required to produce them.

Local-Level and National Support for Solar Power

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17. (C) Chengdu has strongly supported the solar industry, and has vigorously sought to attract companies to relocate to the city. Tianwei decided to open its polysilicon solar power company, a subsidiary of Tianwei Group, in Chengdu in part because of low land costs and tax breaks. Guo said that adequate access to water and electricity, guaranteed by the city government, also influenced the company's decision to move to Chengdu. Additionally, Sichuan province is a large producer of silicon, and proximity to raw materials reduces total production costs. (Note: Israeli Ambassador Amos Nadai and Israel MOFA Deputy Director for East Asia and the Pacific Ruth Kahanoff called on Consul General on November 16 and said that Chengdu officials were pressing Israel to establish a Consulate in Chengdu, as well as encouraging Israeli solar power companies to explore investments in the "Shuangliu" development zone near the Chengdu airport. End Note.)

18. (SBU) China's national government is also highly supportive of the solar industry, Guo added. However, Beijing's subsidies focused on incentives to buyers, not direct subsidies to producers, he explained. Guo defended China's aid to the solar sector, saying its incentives were similar to those offered by other countries, including the United States, and were also necessary if the nascent solar power industry was to be competitive with energy sources based on fossil fuels. For example, electricity produced using solar cells was roughly three times more expensive than that produced from burning coal, Guo said.

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